

**MINUTES OF THE
REVENUE AND TAXATION INTERIM COMMITTEE**
Wednesday, May 21, 2008 – 9:00 a.m. – Room C445 State Capitol

Members Present:

Sen. Wayne L. Niederhauser, Senate Chair
Rep. John Dougall, House Chair
Sen. Mike Dmitrich
Sen. Brent H. Goodfellow
Sen. Howard A. Stephenson
Pres. John L. Valentine
Rep. Douglas C. Aagard
Rep. Rebecca Chavez-Houck
Rep. Tim M. Cosgrove
Rep. Julie Fisher
Rep. Craig A. Frank
Rep. Gage Froerer
Rep. Wayne A. Harper
Rep. Fred R. Hunsaker
Rep. Rosalind J. McGee

Rep. Carol Spackman Moss
Rep. Merlynn T. Newbold
Rep. Paul Ray

Members Absent:

Sen. Curtis S. Bramble
Rep. Aaron Tilton

Staff Present:

Mr. Phillip V. Dean, Policy Analyst
Mr. Bryant R. Howe, Assistant Director
Ms. Angela D. Oakes, Associate General Counsel
Ms. Rebecca L. Rockwell, Associate General Counsel
Mr. Matt Dustin, Research Assistant
Ms. Phalin L. Flowers, Legislative Secretary

Note: A list of others present, a copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

1. Committee Business

Chair Niederhauser called the meeting to order at 9:05 a.m.

MOTION: Rep. Dougall moved to approve the minutes of the April 16, 2008 meeting. The motion passed unanimously with Pres. Valentine and Rep. Harper absent for the vote.

Ms. Rockwell distributed and discussed a letter from the Utah State Tax Commission (Tax Commission) regarding the removal of a nonrefundable income tax credit and certain individual income tax contributions from the *Utah Code*.

2. Open and Public Meetings Act Training

Mr. Howe distributed and discussed "Open and Public Meetings Act." He explained that the Open and Public Meetings Act requires members of a public body to annually receive training on the Act's provisions.

Mr. Dean distributed and discussed "Revenue Summary, Ten Months FY 2007-08."

3. Property Tax Study -- Why a Tax on Property, Alternatives to the Property Tax, and the Property Tax as a Source of Revenue for State and Local Governments and Public Schools in Utah and the United States

Mr. Howe introduced this item and explained that the purpose of the presentation is to compare reliance on property tax revenue in Utah to other states. He also introduced Mr. Matt Dustin, a new research assistant in the Office of Legislative Research and General Counsel.

Mr. Dustin distributed and discussed "Property Taxes." He explained how Utah cities and counties compare with other regions of the United States as to their reliance on property tax revenues and how those revenues are used.

Sen. Stephenson commented that in comparison with other regions of the country, individual income tax, property tax, and sales and use tax revenues in Utah are fairly balanced. He said this speaks well for the state's tax system.

Rep. Aagard asked whether Utah's relatively low reliance on the property tax compared with other regions is because of the high percentage of land in Utah and in other mountain states that is owned by the federal government and therefore not subject to the property tax. Mr. Howe replied that this is certainly a possibility and that staff would try to provide more information on this at a future meeting.

Mr. Dean distributed and discussed "Property Tax and School Funding." He discussed sources of education revenue for different regions of the United States. Those sources include local, state, and federal dollars. He also explained that 56 percent of property tax revenues in Utah go to school districts and showed the property tax base per enrolled student for each school district.

The Committee returned to Agenda Item #1, Committee Business.

MOTION: Sen. Stephenson moved to prepare draft legislation to repeal the nonrefundable income tax credit and certain individual income tax contributions per the Tax Commission's request as referenced in the Tax Commission's letter to the Committee. The motion passed unanimously with Pres. Valentine and Rep. Harper absent for the vote.

4. Property Tax Study -- Property Tax Base -- Alternatives to Fair Market Value -- Land Value Tax

Ms. Joan M. Youngman, Senior Fellow and Chairman, Department of Valuation and Taxation, Lincoln Institute of Land Policy, gave a presentation titled "Property Tax Limitations." She discussed the percentage change in housing prices in Utah and across the nation and reviewed some of the benefits of the property tax. Ms. Youngman also reviewed property tax limitation initiatives in other states and regions including California's Proposition 13, Florida's "Save Our Homes," Colorado's Gallagher Amendment, and Massachusetts's "Proposition 2 1/2."

Ms. Youngman encouraged the Committee to carefully identify the problem that it is attempting to solve before it crafts any changes to Utah's current property tax system. She said that merely limiting taxable values will not reduce property taxes if rates are not capped, and capping rates will have little effect if there is no limit to increases in taxable value. For local governments, the property tax is a preferred source of revenue because the property tax is based on an immobile tax base. Also, reliance on the property tax by local governments promotes accountability of locally elected officials.

Ms. Youngman also spoke briefly on land value taxation. She explained that this tax is imposed only on the value of land, not improvements. She said that because land is in fixed supply, a tax on land is efficient in that it does not reduce supply. She also said that a land value tax can prevent sprawl, reduce the inefficient use of land, and help recapture value that accrues to an enhanced value of land due to government financed infrastructure improvements.

Sen. Stephenson commented that the visibility of the sales and use tax and the individual income tax should be increased. Rep. Harper said that one way to increase the visibility of the property tax would be to prohibit a mortgage holder from collecting the tax on a monthly basis from the homeowner.

Rep. McGee said that the Committee should study property tax deferral programs in other states. Ms. Youngman suggested that the Committee study property tax deferral legislation that was recently adopted in Washington.

Rep. Dougall asked Ms. Youngman to outline the steps that Utah would need to take to adopt a land value tax. Ms. Youngman suggested that at least three initial steps be taken: (1) review Utah constitutional requirements for uniformity; (2) determine how county assessors are now valuing land; and (3) consider how the valuation process should be improved to more accurately determine the value of land. She emphasized that land is very difficult to value from a theoretical perspective.

Mr. Bert Hulet, private citizen, explained that he is concerned with the rising value of land. He said that the assessed value of land is rising faster than the economy and in many instances now exceeds the value of structures on some parcels. Mr. Hulet said that it is time to separate the assessment process from the real estate market by using acquisition value and require only new growth to be assessed each year.

5. Property Tax Study -- Property Tax Rates

Due to lack of time, this item was not discussed, but will be discussed at the June 4, 2008 meeting.

6. Lodging, Restaurant, and Motor Vehicle Rental Taxes

Ms. Rockwell discussed "Utah Sales and Use Taxes on Room Rentals, Vehicle Rentals, or Food Sold by a Restaurant" and *Utah Code* Section 72-2-117, which were included in the mailing packet.

Mr. Howe distributed and discussed three maps of Utah's counties that show tax rates for the county transient room tax, vehicle rental tax, and tax on food sold by a restaurant. He also distributed and discussed "General State and Local Sales and Use Taxes and Lodging Specific, Motor Vehicle Rental Specific, and Restaurant Specific Taxes Imposed by State and Local Governments in 12 Western Cities," which compares lodging, motor vehicle rental, and restaurant tax rates in 12 major western cities.

Ms. Rockwell distributed and discussed H.R. 2453, "End Discriminatory State Taxes for Automobile Renters Act of 2007" which is now pending in Congress. She said that staff would keep the Committee apprised on the final disposition of the legislation. She also distributed "Amazon Challenges NY Online Sales Tax," an article from *eWeek*.

Chair Niederhauser said that the transient room tax and the tourism, recreation, cultural and convention facilities taxes are designed to tax tourists and other visitors to the state. He said that these taxes are popular because they are thought to be paid only by nonresidents. However, he noted that it is important that all taxes be fair and nondiscriminatory.

Rep. Harper said that Utah residents also pay these taxes.

7. Utility Franchise Fees -- Consideration of Moratorium

Chair Niederhauser said that there was little time to discuss this agenda item, but explained that the purpose of the item is to discuss municipalities that are facing budget deficits due to a reliance on building impact fees. He said that residential construction is down 70 percent, which is lowering revenues from those fees. He also noted that several municipalities are considering the imposition of a utility franchise fee to raise additional revenue.

8. Other Items / Adjourn

MOTION: Rep. Frank moved to adjourn the meeting. The motion passed unanimously with Sen. Dmitrich, Sen. Stephenson, and Pres. Valentine absent for the vote.

Chair Niederhauser adjourned the meeting at 11:56 a.m.